

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

----- In the Matter of -----

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate the  
Issues and Requirements Raised by, and  
Contained in, Hawaii Revised Statutes  
Chapter 486H, as Amended

DOCKET NO. 05-0002

CHEVRON U.S.A. INC.'S COMMENTS TO ICF CONSULTING'S RECOMMENDATIONS TO  
MODIFY HRS CHAPTER 486H, GASOLINE PRICE CAP LEGISLATION, FOR THE ETHANOL  
MANDATE, HAWAII ADMINISTRATIVE RULES, TITLE 15, CHAPTER 35

AND

CERTIFICATE OF SERVICE

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COMMISSION

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OF THE STATE OF HAWAII

PUBLIC UTILITIES COMMISSION

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CHEVRON U.S.A. INC. ("Chevron"), by and through its counsel, hereby provides its comments to ICF Consulting LLC's ("ICF") March 23, 2006 Recommendations To Modify HRS Chapter 486H, Gasoline Price Cap Legislation, for the Ethanol Mandate (the "ICF Ethanol Recommendations") which takes effect on April 2, 2006.

## I. BACKGROUND.

In its November 1, 2005 filing, Chevron offered, among other things, an initial perspective to address the Commission's request for a proposal on the recovery of ethanol blending and associated costs. Although capital and other operational costs associated with compliance with the ethanol mandate were reasonably estimable at that time, the cost of importing ethanol was not and, therefore, Chevron was unable to provide the Commission with a complete answer at that time. On February 24, 2006, Chevron filed a supplemental response to its November 1, 2005 submission by providing its proposed suggestions on how the Commission can adjust the HRS § 468H-13 factors to include the addition of ethanol blending requirements.

On March 23, 2006, the Commission distributed copies of the ICF Ethanol Recommendations for any comments parties may have. Overall, subject to the comments described below, Chevron believes many of the ICF Ethanol Recommendations may be appropriate. The following are Chevron's comments to selected portions of the ICF Ethanol Recommendations.

## II. **DISCUSSION.**

### A. **Chevron Does Not Oppose the ICF Ethanol Recommendation to Add a 4cpg Adjustment Premium to the Current Conventional Gasoline Baseline Price If Certain Additional Modifications Are Made.**

In order to provide consumers with proper quality conventional specification E-10 gasoline at the service station, ICF noted that Hawaii refiners would essentially cease producing non-ethanol conventional grade gasoline and manufacture and ship HIBOB.<sup>1</sup> ICF recognized that producing HIBOB will typically result in a higher cost for refiners due to the need to reduce the volume of low-valued butanes and pentanes in the finished gasoline, resulting in a loss of refinery margin.<sup>2</sup> ICF further noted that because (a) the Hawaii refineries have configuration constraints that limit their capability to adjust or tailor the gasoline blend and (b) there is a lack of a commercial spot market to resell surplus gasoline or other product, the Hawaii refiners incur increased cost to produce HIBOB.<sup>3</sup>

While ICF's assessment of both Chevron and Tesoro's refinery operations and costs indicate that there is a significant additional cost to produce HIBOB gasoline, ICF was not able to fully analyze and validate the costs presented by the refiners.<sup>4</sup> Instead, ICF recommended that the Commission incorporate a fixed adjustment of 4 cpg to reflect the cost to produce HIBOB above the current baseline price calculation of conventional gasoline price in

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<sup>1</sup> ICF Ethanol Recommendations at pg. 10.

<sup>2</sup> *Id.* at pg. 11.

<sup>3</sup> *Id.* at pgs. 11 and 13.

<sup>4</sup> *Id.* at pg. 14.

New York, Los Angeles, and the Gulf Coast.<sup>5</sup> ICF recommended that this HIBOB adjustment factor be reviewed annually.

[illegible]

<sup>5</sup> *Id.* at pg. 15.

6 In its response to PUC-IR-42, which was amended on March 10, 2006, Chevron noted that there would be a 9.5 cpg shift based on the stock balance shift between the production of conventional gasoline vs. ethanol. This type of shift is market driven and will fluctuate depending on the market forces across the entire refined barrel of crude oil.

7 ICF Consulting Report, Implementation Recommendations for Hawaii Revised Statutes Chapter  
486H, Gasoline Price Cap Legislation, at pg. 20.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

**B. The Ethanol Pool Price Determination Process Appears Reasonable In The Absence of Other Alternatives.**

ICF is recommending that an average Ethanol Pool Price be determined based on the cargoes delivered, as well as “cargo-based” resale transactions.<sup>9</sup> Under this proposed process, the industry pool of ethanol inventory will be based on the delivered price of imported cargoes multiplied by the volume imported. As each delivery of ethanol is brought into Hawaii, the “pool price” will be increased or decreased based on the cost of the cargoes as well as “cargo-based” resales.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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<sup>8</sup>

[Redacted]

<sup>9</sup> *Id.* at pg. 18.

III. CONCLUSION.

DATED: Honolulu, Hawaii, March 29, 2006

  
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CERTIFICATE OF SERVICE

I hereby certify that on this date I served copies of the foregoing document upon the following parties, by causing hereof to be mailed, postage prepaid, properly addressed, or hand delivered, to the following:

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